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Serbia:
Social tensions rise ahead of elections

The key adjustment mechanism during the crisis has been the exchange rate. Initial devaluation, in late 2008 and early 2009, was followed by steady depreciation, until the end of December 2010 and the beginning of 2011. This has led to growth of exports and to a decline or slow recovery of imports. That, however, goes along with a decline of private consumption and investment, with public consumption compensating only partially the shortfall in domestic demand. In addition, inflation has accelerated in part because of rising prices of food and energy since mid-2010. Altogether, this has resulted in growth of GDP of 1.5% (this is a preliminary figure) and in a decline of real incomes.

In addition, the fall in employment has been dramatic. From April 2008 to October 2010 (labour force surveys are taken twice a year, in April and October) about 450 thousand jobs were lost, which is about 16% of currently employed. The losses have occurred in the formal as well as in the informal sectors. Approximately one quarter of employed are working informally and about one quarter of the lost jobs are in the informal sector too. This indicates that the informal sector is not a safety valve but shares the growth prospects of the formal sector. This goes together with the labour mobility which is away from rural and into urban centres. That is caused by the widening regional disparities, in particular between the capital city and the regional centres and the rest of the country. There is also an increase in outward migration, but there are no reliable data on the current flows. However, there are reports from the receiving countries in Europe, but also oversees, that the number of asylum seekers is increasing as is the number of illegal immigrants.

Finally, there is a speed-up of inflation. Since the summer of 2010, the rise in food prices and rising inflationary expectations have pushed the headline rate of inflation into double digits (annualized). While the increase in food prices is mostly a supply problem, due to shortfalls in agricultural production in the country and abroad, inflationary expectations have been pushed up due to the expected lifting of the freeze on wages and pensions, which was put in place as part of a stand-by agreement with the IMF at the beginning of the crisis in late 2008. That has led the central bank to start raising its interest rate and to signal that it would continue doing so as long as the rate of inflation does not go down to the targeted one, which is 4.5% plus or minus 1.5%. So far, the effects on inflationary expectations have been nil.

These developments put together have resulted in a further impoverishment of those who were already poor but also of the middle classes, in particular those employed by the public sector. That accounts for the wave of strikes and political protests that have occurred at the beginning of 2011. Again, expectations play a part because general elections are due early next year and the government as well as the opposition parties are seen as being ready to approve wage and other income raises. Also, it is not expected that the central bank will tighten its monetary policy too much even in the face of increased inflationary pressures. Indeed, the expectation is that the central bank will try to strengthen the exchange rate of the dinar as the main instrument to tie down inflation. This is already happening with the appreciation of the dinar at the beginning of 2011. Of course, with entrenched inflation and high inflationary expectations, an appreciating currency is bound to wipe out the gains in competitiveness achieved with the former depreciation. That also will not help increase employment and it is also questionable whether it will quell the social tensions and protests.

In any case, in the short run, the growth prospects are improving mostly due to the recovery from the recession. The risks are on the downside if the financing of increased private and public consumption disappoints. For the period before the general elections, scheduled for March-April 2012 if the political pressures for early polls can be resisted, the main source of finance is the proceeds from the privatization of Telecom, which should take place in the spring of this year. However, that will lead to a deterioration of the trade balance and will not support the recovery of industrial production.

The main opposition party has set April 16 as the date for the start of mass protests which will end only if the government calls for early elections. This is in part because the Russian Prime Minister Putin is visiting the country at the end of March. Like the Croatian government some months ago, Serbian government is trying to deflect the calls for early elections with the reconstruction of the government. That has obviously come to late.

In the medium term, macroeconomic and social stability will present problems and will weigh on economic growth. The key issue is growth of industrial production, which has mostly stagnated in the last decade and has not recovered strongly after the crisis. Given that recovery of other sectors is either unlikely or cannot impact significantly the overall growth, medium-term prospects are rather mediocre. Those will also depend on the outcome of the upcoming general elections. At the moment, it is hard to say what the economic policy of the new government will look like.

Table RS

Serbia: Selected Economic Indicators

	2005	2006	2007	2008	2009	2010 1)	2011	2012	2013
								Forecast	
Population, th pers., average	7440.8	7411.6	7381.6	7350.2	7320.8	7300	7280	7250	7220
Gross domestic product, RSD bn, nom. 2)	1683.5	1962.1	2302.2	2722.5	2815.0	3100	3400	3700	4000
annual change in % (real) 2)	5.6	5.2	6.9	5.5	-3.1	1.5	2.5	3	3
GDP/capita (EUR at exchange rate)	2700	3100	3900	4600	4300	4000	.	.	.
GDP/capita (EUR at PPP - wiiw)	7100	7700	8300	9200	8600	8900	.	.	.
Consumption of households, RSD mn, nom. 2)	1281.0	1492.7	1714.0	2023.6	.	.	.	.	.
annual change in % (real) 2)3)		5.4	6	6	-2	2	2	2	2
Gross fixed capital form., RSD mn, nom. 2)	319.9	412.8	552.3	632.4	.	.	.	.	.
annual change in % (real) 2)3)		15.2	12	8	-5	-4	3	4	4
Gross industrial production									
annual change in % (real)	0.8	4.7	3.7	1.1	-12.1	3.0	5	5	5
Gross agricultural production									
annual change in % (real)	-3.4	-2.6	-8.0	9.0	5.0	0	5	5	5
Construction output total 4)									
annual change in % (real)	2.0	7.7	10.8	4.6	-14.3	-10	0	5	5
Employed persons - LFS, th, Oct 5)	2733.4	2630.7	2655.7	2821.7	2616.4	2397.2	2400	2400	2420
annual change in %	-6.7	-3.8	1.0	.	-7.3	-8.4	0	0	1
Unemployed persons - LFS, th, Oct 5)	719.9	693.0	585.5	445.4	503.0	570.0	.	.	.
Unemployment rate - LFS, in %, Oct 5)	20.8	20.9	18.1	13.6	16.1	19.2	20	20	20
Reg. unemployment rate, in %, end of period	27.2	28.0	25.4	24.0	24.8	26.0	27	27	27
Average gross monthly wages, RSD 6)	25514	31745	38744	45674	44147	47450	.	.	.
annual change in % (real, net) 6)	6.4	11.4	19.5	3.9	0.2	0.7	.	.	.
Consumer prices, % p.a.	16.2	11.7	7.0	13.5	8.6	6.8	7	6	6
Producer prices in industry, % p.a. 7)	14.2	13.3	5.9	12.4	5.6	12.7	.	.	.
General governm.budget, nat.def., % GDP									
Revenues	43.0	44.2	43.5	42.0	40.7	40.0	.	.	.
Expenditures	42.0	45.8	45.5	44.6	42.9	44.8	.	.	.
Deficit (-) / surplus (+), % GDP	1.0	-1.6	-1.9	-2.6	-4.3	-4.8	-3	-3	-2
Public debt, nat.def., in % of GDP	52.1	37.3	29.8	27.9	32.6	36.0	36	36	35
Central bank policy rate, % p.a., end of period 8)	19.2	14.0	10.0	17.8	9.5	11.5	10	10	10
Current account, EUR mn	-1778.0	-2356.0	-5052.6	-7054.1	-2083.4	-1850	-2500	-3400	-3600
Current account in % of GDP	-8.8	-10.1	-17.6	-21.1	-7.0	-6.3	-8	-10	-10
Exports of goods, BOP, EUR mn	4009.0	5109.0	6382.5	7416.0	5977.7	7200	8300	9100	10000
annual growth rate in %	22.0	27.4	24.9	16.2	-19.4	20	15	10	10
Imports of goods, BOP, EUR mn	8287.0	10090.0	13451.3	15917.2	11096.2	12000	13200	14500	16000
annual growth rate in %	-2.4	21.8	33.3	18.3	-30.3	8	10	10	10
Exports of services, BOP, EUR mn	1320.0	1839.0	2304.0	2741.4	2500.1	2600	2900	3200	3500
annual growth rate in %	11.0	39.3	25.3	19.0	-8.8	4	10	10	10
Imports of services, BOP, EUR mn	1325.0	1880.0	2565.1	2926.1	2480.8	2600	2900	3200	3500
annual growth rate in %	25.5	41.9	36.4	14.1	-15.2	5	10	10	10
FDI inflow, EUR mn	1268.1	3392.4	2512.6	2017.5	1439.1	1000	1500	1500	2000
FDI outflow, EUR mn	17.9	69.8	691.8	193.1	37.6	100	200	200	200
Gross reserves of NB, excl. gold, EUR mn	4770.4	8857.9	9440.7	7938.5	10277.7	9300	10000	10000	10000
Gross external debt, EUR mn	12196.0	14182.0	17139.0	21088.0	22487.0	24000	26000	28000	30000
Gross external debt in % of GDP	61.9	57.1	59.0	68.6	76.6	81.8	84	83	83
Average exchange rate RSD/EUR	82.91	84.19	79.98	81.47	93.92	106.31	110	110	110
Purchasing power parity RSD/EUR 9)	31.72	34.41	37.58	40.40	44.47	47.77	.	.	.

1) Preliminary and wiiw estimates. - 2) According to ESA'95 (non-observed economy partially incuded). - 3) wiiw estimate. - 4) Gross value added. - 5) From 2008 extended survey as of April and October. - 6) From 2009 including wages of employees working for entrepreneurs. - 7) Domestic output prices. - 8) Two-week repo rate. - 9) Benchmark results 2005 from Eurostat and wiiw estimates.

Source: wiiw Database incorporating national statistics. Forecasts by wiiw.